



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

**Kitsap County Fire Protection District
No. 7**

(South Kitsap Fire and Rescue)

For the period January 1, 2012 through December 31, 2013

Published December 29, 2014

Report No. 1013333





Washington State Auditor
Troy Kelley

December 29, 2014

Board of Commissioners
South Kitsap Fire and Rescue
Port Orchard, Washington

Report on Financial Statements

Please find attached our report on the South Kitsap Fire and Rescue's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	4
Independent Auditor's Report On Financial Statements	7
Financial Section.....	11
About The State Auditor's Office.....	27

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**South Kitsap Fire and Rescue
Kitsap County
January 1, 2012 through December 31, 2013**

Board of Commissioners
South Kitsap Fire and Rescue
Port Orchard, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Kitsap Fire and Rescue, Kitsap County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 18, 2014.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 18, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

South Kitsap Fire and Rescue Kitsap County January 1, 2012 through December 31, 2013

Board of Commissioners
South Kitsap Fire and Rescue
Port Orchard, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Kitsap Fire and Rescue, Kitsap County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 10.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the South Kitsap Fire and Rescue has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the South Kitsap Fire and Rescue, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the South Kitsap Fire and Rescue, as of December 31, 2013

and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

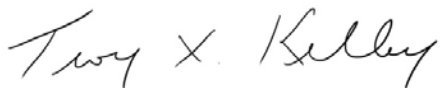
Other Matters

Supplementary and Other Information

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Liabilities are presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 18, 2014

FINANCIAL SECTION

**South Kitsap Fire and Rescue
Kitsap County
January 1, 2012 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fund Resources and Uses Arising from Cash Transactions – 2012
Notes to Financial Statements – 2013
Notes to Financial Statements – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Liabilities – 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General	101 EMS	301 Capital Project
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	4,365,903	2,111,943	6,148	2,247,812
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	12,125,994	12,125,994	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	177,277	177,277	0	0
340	Charges for Goods and Services	1,844,926	621,247	0	1,223,679
350	Fines & Penalties	4,606	4,606	0	0
360	Miscellaneous Revenues	185,618	52,194	1,117	132,307
Total Operating Revenues:		14,338,421	12,981,318	1,117	1,355,986
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	13,680,546	13,679,256	1,290	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		13,680,546	13,679,256	1,290	
Net Operating Increase (Decrease):		657,875	-697,938	-173	1,355,986
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	117,776	117,776	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	1,000,000	1,000,000	0	0
Total Nonoperating Revenues:		1,117,776	1,117,776		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	1,060	1,060	0	0
591-593	Debt Service	236,318	236,318	0	0
594-595	Capital Expenditures	126,810	126,810	0	0
597	Transfers-Out	1,000,000	0	0	1,000,000
Total Nonoperating Expenditures:		1,364,188	364,188		1,000,000
Increase (Decrease) in Cash and Investments		411,463	55,650	-173	355,986
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	4,777,367	2,167,594	5,975	2,603,798

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 General	101 EMS	301 Special Ambulance Revenue
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	4,075,793	1,538,760	1,752	2,535,281
38800/58800	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	12,013,391	12,013,391	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	208,953	208,953	0	0
340	Charges for Goods and Services	1,609,879	129,157	0	1,480,722
350	Fines & Penalties	2,862	2,862	0	0
360	Miscellaneous Revenues	69,479	48,770	5,900	14,809
Total Operating Revenues:		13,904,564	12,403,133	5,900	1,495,531
Operating Expenditures					
510	General Government	269,198	269,198	0	0
520	Public Safety	12,976,576	12,975,476	1,099	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		13,245,773	13,244,674	1,099	
Net Operating Increase (Decrease):		658,790	-841,541	4,801	1,495,531
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	126,952	126,952	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	1,783,000	1,783,000	0	0
Total Nonoperating Revenues:		1,909,952	1,909,952		
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	3,352	3,352	0	0
591-593	Debt Service	257,168	256,763	405	0
594-595	Capital Expenditures	234,913	234,913	0	0
597	Transfers-Out	1,783,000	0	0	1,783,000
Total Nonoperating Expenditures:		2,278,433	495,028	405	1,783,000
Increase (Decrease) in Cash and Investments		290,309	573,383	4,396	-287,469
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	4,360,203	2,106,243	6,148	2,247,812

The accompanying notes are an integral part of this Statement.

Kitsap County Fire Protection District No. 7

DBA: South Kitsap Fire and Rescue

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

South Kitsap Fire and Rescue reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

South Kitsap Fire and Rescue was incorporated on September 10, 1946 and operates under the laws of the state of Washington applicable to a fire district. South Kitsap Fire and Rescue is a general purpose government and provides fire protection and emergency medical services to the general public. The District uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of South Kitsap Fire and Rescue are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for the proceeds of specific revenue source (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

Special Ambulance Revenue Funds

These funds account for financial resources that are designated for liabilities. Beginning in September 2013 the Special Ambulance Revenue Funds were converted to Capital Project Fund.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account for those assets that the District holds for others in an agency capacity.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

In accordance with state law the District also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The District adopts annual appropriated budgets for General (90862) funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Total 001 General Fund	\$ 14,099,094.48	\$ 14,043,443.66	\$ 55,650.82
Total 101 Special Revenue Fund	\$ 1,117.22	\$ 1,290.00	(\$ 172.78)
Total 301 Special Ambulance Revenue Funds	\$ 1,355,985.59	\$ 1,000,000.00	\$ 355,985.59

D. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

E. Deposits

The District's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (first \$100,000), the rest by Washington Public Deposit Protection Commission. Most money in investments collateralized by securities by Bank of New York.

F. Investments See Note 2, *Investments*.

H. Capital Assets

Capital assets are assets with an initial individual cost of more than \$4,999 and an estimated useful life in excess of one (1) year. The capital assets of the District are recorded as expenditures when purchased.

I. Compensated Absences

For non-represented and represented employees, one-and-one-half (1-1/2) times the amount of vacation actually earned for that year may be carried forward to the next year and is payable upon separation or retirement.

Sick leave may accumulate up to 960 hours for non-uniform employees, 1,316 hours for uniform employees, 1,040 for Battalion Chief Day employees, and 1,000 for Deputy Chief and Fire Chief. Upon retirement or death, employees receive one (1) hour of pay for each hour of accumulated sick leave up to a maximum of 500 hours. Suppression employees and Battalion Chiefs who die in the line of duty will receive 100% of their accumulated sick leave. Upon retirement or death of the Fire Chief, the Fire Chief shall receive one-half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of 1,000 hours. Upon retirement or death of the Deputy Chief, the Deputy Chief shall receive one-half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of 500 hours.

J. Long-Term Debt See Note 4, *Debt Service Requirements*.

K. Other Financing Sources or Uses

The District's *Other Financing Sources or Uses* consist of inter-fund transfers between the General (Current Expense) Fund and Capital Project Funds to either reimburse the General Fund for capital projects authorized and completed in the current year or to fund future capital projects in an amount identified in the current year's operating budget for transfer to Capital Project funds from the General Fund.

L. Risk Management

South Kitsap Fire and Rescue is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of September 1, 2013, there are 236 members in the program.**

The program provides the following forms of joint self-insurance and excess coverage for its members: Property, including Automobile Comprehensive and Collision; Equipment Breakdown and Crime Protection; and Liability, including General, Automobile and Wrongful Acts, are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Canfield, that is subject to a per-occurrence self-insured retention of \$100,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy **with a attachment point of \$3,247,000**, to cap the total claims paid by the program in any one year.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500 **(\$10,000 for Pumps & Motors)**. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage.

Members contract to remain in the program for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program. The program has no employees. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration, and loss prevention for the program. **Fees paid to the third party administrator under this arrangement for the year ending August 31, 2013 were \$1,423,059.12.**

Note 2 - Investments

South Kitsap Fire and Rescue's investments are held by the Kitsap County as its agent in the District's name.

Investments by type at December 31, 2013 are as follows:

<u>Type of Investment</u>	<u>Balance</u>
90862 – Expense	\$ 1,793,135.29
90863 – Special	\$ 5,975.24
90864 – Capital Project	\$ 2,603,797.70
Total	\$ 4,402,908.23

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

South Kitsap Fire and Rescue's regular levy for the year 2013 was \$1.451628 per \$1,000 on an assessed valuation of \$6,175,838,280 for a total regular levy of \$8,983,636.86.

South Kitsap Fire and Rescue's emergency medical services (EMS) levy for the year 2013 was \$0.499811 per \$1,000 on an assessed valuation of \$6,192,419,541 for a total regular levy of \$3,112,151.01.

Note 4 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District debt transactions for year ended December 31, 2013.

The debt service requirements for general obligations bonds, revenue bonds, and other debt, including both principle and interest, are as follows:

	General Obligation Bonds	Other Debt	Total Debt
2013		\$ 236,318	\$ 567,894
2014		\$ 207,622	\$ 360,271
2015		\$ 92,063	\$ 268,208
2016		\$ 92,063	\$ 176,145
2017		\$ 92,063	\$ 84,082
2018 - 2019		\$ 84,082	\$ -
TOTALS	\$	\$ 804,211	\$ -

Note 5 - Pension Plans

Substantially all of South Kitsap Fire and Rescue's full-time and qualifying part-time employees participate in the PERS1, PERS2, PERS3, and LEOFF2 Plans administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia WA 98504-8380

Note 6 - Other Disclosures

1. **Joint Agency Fund.** Resolution 96-6 established a Fire Service Joint Management fund (90921) with the Kitsap County Treasurer. This fund is a joint venture that was established for the benefit of developing training, maintenance, operations, communication, and administrative services with other fire service agencies and cities within Kitsap County. Voting members of the Joint Management Group currently consist of Bremerton Fire Department, Central Kitsap Fire & Rescue, South Kitsap Fire and Rescue, Kitsap County Central Communications (CenCom)/Department of Emergency Management (DEM), Kitsap County Coroner, and Kitsap County Sheriff's. The voting members nominate and vote on officers every two years. A chair's term begins in an even year and a vice chair and secretary/treasurer begins in an odd year. In previous years and through 2013, South Kitsap Fire Rescue had members in the chair and secretary/treasurer positions.

January 2012 saw the transition of Fire Service Joint Management fund (90921) become Kitsap Readiness Center Joint Management Group (KRCJMG) Limited Liability Company (LLC). This transition meant that Fund 90921 would no longer be included in South Kitsap Fire and Rescue's financial statements as a Fiduciary fund and the agency hired an accounting firm to complete their financial statements per legal requirements.

2. South Kitsap Fire and Rescue has had a Training section in previous budgets that were included as 5224010 – salaries and wages, 5224020 personnel benefits, 5224030 supplies, and 5224040 services & charges. 5224010 and 5224020 covered the salary and benefits for the Battalion Chief in charge of Training. 5224010 also included overtime for Suppression personnel to attend training classes. Due to the restructure of this area in the BARS manual, the District has moved the Battalion Chief's salary and benefits to the Administration section and renumbered the Suppression overtime line item to 5224510. 5224030 and 5224040 have been changed to 5224530 and 5224540 – supplies and services & charges for training obtained by employees.

Kitsap County Fire Protection District No. 7

DBA: South Kitsap Fire and Rescue

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

South Kitsap Fire and Rescue is a special purpose government that provides fire protection services to the general public and is supported primarily through property taxes. The District was incorporated on September 10, 1946 and operates under Chapter 52 RCW and other laws of the state of Washington applicable to fire districts.

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the District:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

This fund is the primary operating fund of the District. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for the proceeds of specific revenue source (other than for major capital projects) that are legally restricted to expenditures for specific purposes.

Special Ambulance Revenue Funds

These funds account for financial resources that are designated for liabilities.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others.

Agency Funds

These funds are used to account assets that the District holds for others in an agency capacity.

B. Basis of Accounting

South Kitsap Fire and Rescue reports financial activity using the revenue and expenditure classifications, statements and schedules contained in the *Cash Basis Budgeting Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another

comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

C. Cash

It is the District's policy to invest all temporary cash surpluses. The amount is included on the statement of fund resources and uses arising from cash transactions as net cash and investments.

D. Deposits

The District's deposits (and certificates of deposit) are covered by the Federal Deposit Insurance Corporation (first \$100,000), the rest by Washington Public Deposit Protection Commission. Most money in investments collateralized by securities by Bank of New York.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$4,999 and an estimated useful life in excess of one year. The capital assets of the District are recorded as expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to 18 months and is payable upon separation or retirement.

Sick leave may accumulate up to 960 hours for non-uniform employees, 1,316 hours for uniform employees, 1,040 for Battalion Chief Day employees, and 1,000 for Deputy Chief and Fire Chief. Upon retirement or death, employees receive one (1) hour of pay for each hour of accumulated sick leave up to a maximum of 500 hours. Suppression employees and Battalion Chiefs who die in the line of duty will receive 100% of their accumulated sick leave. Upon retirement or death of the Fire Chief, the Fire Chief shall receive one-half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of 1,000 hours. Upon retirement or death of the Deputy Chief, the Deputy Chief shall receive one-half (1/2) hour of pay for each hour of accumulated sick leave up to a maximum of 500 hours.

Note 2 – Budgets

The District adopts annual appropriated budgets for General (90862) funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for legally adopted budgets were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Total 001 General Funds	\$ 12,529,885	\$13,739,702	(\$ 1,209,817)
Total 101 Special Revenue Funds	\$ 5,900	\$ 1,504	\$ 4,396
Total 301 Special Ambulance Revenue Funds	\$ 1,495,531	\$ 1,783,000	(\$ 287,469)

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by the District. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The District's regular fire levy for the year 2012 was \$1.381558 per \$1,000 on an assessed valuation of \$6,398,965,996 for a total regular fire levy of \$8,843,334. In 2012 the District also levied \$0.50 per \$1,000 on an assessed valuation of \$6,421,935,689 for a total EMS levy of \$2,313,832.

Note 4 - Investments

South Kitsap Fire and Rescue's investments are held by the Kitsap County as its agent in the District's name. Investments by type at December 31, 2012 were as follows:

<u>Type of Investment</u>	<u>Balance</u>
90862 – General Expense Fund	\$ 1,752,821.53
90863 – Special Revenue Fund	\$ 6,098.08
90864 – Special Ambulance Revenue Fund	\$ 2,185,774.08
Total	\$ 3,944,693.69

Note 5 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the District and summarizes the District debt transactions for year ended December 31, 2012.

The debt service requirements for general obligations bonds, revenue bonds, and other debt, including both principle and interest, are as follows:

	General Obligation Bonds	Other Debt	Total Debt
2012		\$ 257,168	\$ 804,212
2013		\$ 236,318	\$ 567,894
2014		\$ 207,622	\$ 360,271
2015		\$ 92,063	\$ 268,208
2016		\$ 92,063	\$ 176,145
2017 - 2019		\$ 176,145	\$ -
TOTALS	\$	\$1,061,381	\$ -

Note 6 - Pension Plans

Substantially all of South Kitsap Fire and Rescue's full-time and qualifying part-time employees participate in the PERS1, PERS2, PERS3, and LEOFF2 Plans administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement systems. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia WA 98504-8380

Note 7 – Other Disclosures

Risk Management. South Kitsap Fire and Rescue is a member of the Cities Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. **As of September 1, 2012, there are 254 members in the pool.**

The pool provides the following forms of joint self-insurance and excess coverage for its members: property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The pool acquires liability insurance through **their Administrator, Canfield**, that is subject to a per-occurrence **self insured retention** of \$100,000. Members are responsible for the first \$1,000 of the deductible portion of each claim, while the pool is responsible for the remaining \$99,000. **Insurance carriers cover** insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$99,000 portion of the **self insured retention**. The pool also purchases a Stop Loss Policy **with a limit of \$2,545,000** to cap the total claims paid by the pool in any one year.

Property insurance is subject to a per-occurrence **self insured retention of \$25,000**. Members are responsible for a **\$1,000 deductible** for each claim. **The pool bears the \$25,000 self insured retention in addition to the deductible.**

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500. Members are responsible for the deductible amount of each claim. **There is no pool self insured retention on this coverage.**

Members contract to remain in the pool for a minimum of one year, and must give notice before August 31 terminating participation the following September 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the pool. The pool has no employees, but has contracted with a third-party administrator, Canfield, to perform the daily administration of the pool, including **underwriting, brokerage**, account education, risk management, and claims administration.

Joint Agency Fund. Resolution 96-6 established a Fire Service Joint Management fund (90921) with the Kitsap County Treasurer. This fund is a joint venture that was established for the benefit of developing training, maintenance, operations, communication, and administrative services with other fire service agencies and cities within Kitsap County. Voting members of the Joint Management Group currently consist of Bremerton Fire Department, Central Kitsap Fire & Rescue, South Kitsap Fire and Rescue, Kitsap County Central Communications (CenCom)/Department of Emergency Management (DEM), Kitsap County Coroner, and Kitsap County Sheriff's. The voting members nominate and vote on officers every two years. A chair's term begins in an even year and a vice chair and secretary/treasurer begins in an odd year. Currently South Kitsap Fire Rescue has members in the chair and secretary/treasurer positions.

May 10, 2012 Interlocal Cooperation Agreement was signed between Bremerton Fire Department, Central Kitsap Fire and Rescue, South Kitsap Fire and Rescue, Kitsap County Sheriff's Office, CenCom/DEM, and Kitsap County Coroners establishing a separate entity of the Kitsap Readiness Center Joint Management Group. This transition meant that Fund 90921 would no longer be included in South Kitsap Fire and Rescue's financial statements as a Fiduciary fund.

Kitsap County Fire Protection District No. 7

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	263.96	LOCAL Program	6/1/2014	82,727	0	54,598	28,129
	263.96	LOCAL Program	12/1/2014	165,737	0	81,301	84,437
	263.96	LOCAL Program	12/1/2017	91,694	0	16,656	75,038
	263.96	LOCAL Program	6/1/2018	111,336	0	18,464	92,871
	263.96	LOCAL Program	6/1/2019	269,119	0	36,347	232,773
	259.11	Compensated Absences		836,493	1,454,374	1,328,676	962,192
		Total General Obligations:		1,557,106	1,454,374	1,536,041	1,475,439
		Total Liabilities:		1,557,106	1,454,374	1,536,041	1,475,439

Kitsap County Fire Protection District No. 7

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	Ending Balance December 31, 2012
General Obligations							
	263.96	LOCAL Program	6/1/2014	135,185	0	52,459	82,726
	263.96	LOCAL Program	12/1/2014	244,019	0	78,282	165,737
	263.91	U.S. Bank	12/1/2012	20,000	0	20,000	0
	263.96	LOCAL Program	12/1/2017	107,585	0	15,891	91,694
	263.96	LOCAL Program	6/1/2018	129,076	0	17,740	111,336
	263.96	LOCAL Program	6/1/2019	303,830	0	34,711	269,119
	259.11	Compensated Absences		753,917	1,106,916	1,024,340	836,493
Total General Obligations:				1,693,612	1,106,916	1,243,423	1,557,105
Total Liabilities:				1,693,612	1,106,916	1,243,423	1,557,105

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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